



# King County

1200 King County  
Courthouse  
516 Third Avenue  
Seattle, WA 98104

## Meeting Agenda King County Ferry District

*Boardmembers: Joe McDermott, Chair; Larry Gossett, Vice Chair;  
Reagan Dunn; Bob Ferguson; Jane Hague; Kathy Lambert;  
Julia Patterson; Larry Phillips; Pete von Reichbauer*

1:30 PM

Monday, May 21, 2012

Room 1001

### SPECIAL MEETING

1. Call to Order
2. Roll Call
3. Approval of Minutes of April 23, 2012

### Discussion and Possible Action

7. FD Resolution No. FD2012-06

A RESOLUTION relating to the King County Ferry District's 2009 financial statements and adopting the King County Ferry District Financial Statements for the Year Ended December 31, 2011.

9. Adjournment



*Sign language and communication material in alternate formats can be arranged given sufficient notice (206-1000).*

*TDD Number 206-1024.*

*ASSISTIVE LISTENING DEVICES AVAILABLE IN THE COUNCIL CHAMBERS.*





# King County

1200 King County  
Courthouse  
516 Third Avenue  
Seattle, WA 98104

## Meeting Minutes - Final King County Ferry District

*Boardmembers: Joe McDermott, Chair; Larry Gossett, Vice  
Chair;  
Reagan Dunn; Bob Ferguson; Jane Hague; Kathy Lambert;  
Julia Patterson; Larry Phillips; Pete von Reichbauer*

---

1:30 PM

Monday, April 23, 2012

Room 1001

---

### --DRAFT MINUTES--

1. **Call to Order**

*The meeting was called to order at 1:47 p.m.*

2. **Roll Call**

**Present:** 8 - Mr. McDermott, Mr. Ferguson, Mr. Gossett, Ms. Lambert, Mr. Phillips, Ms. Patterson, Ms. Hague and Mr. Dunn

**Excused:** 1 - Mr. von Reichbauer

3. **Approval of Minutes of March 5, 2012**

*Boardmember Gossett moved to approve the minutes of the March 5, 2012 meeting as presented. Seeing no objection, the Chair so ordered.*

## Discussion and Possible Action

4. **FD Resolution No. FD2012-04**

A RESOLUTION authorizing the purchase of excess marine liability coverage for the purpose of providing insurance for the King County Ferry District, and authorizing the chair of the Board of Supervisors to take actions necessary to accomplish the purchase of insurance.

*Christine Nelson, District Administrator, briefed the Board.*

*Jennifer Hills, Manager, Risk Management Division, answered questions of the Board.*

**A motion was made by Boardmember Gossett that this FD Resolution be Passed. The motion carried by the following vote:**

**Yes:** 8 - Mr. McDermott, Mr. Ferguson, Mr. Gossett, Ms. Lambert, Mr. Phillips, Ms. Patterson, Ms. Hague and Mr. Dunn

**Excused:** 1 - Mr. von Reichbauer

**5. FD Resolution No. FD2012-05**

A RESOLUTION relating to the King County Ferry District's Maintenance and Moorage Barge and approving a lease with the Washington State Department of Transportation for the District's use of Pier 48.

*Christine Nelson, District Administrator, answered questions of the Board.*

*Boardmember Gossett moved Amendment 1. The motion carried by the following vote:*

*Votes: Yes: 8 - Mr. Dunn, Mr. Ferguson, Mr. Gossett, Ms. Hague, Ms. Lambert, Mr. McDermott, Ms. Patterson and Mr. Phillips*

*No: 0*

*Excused: 1 - Mr. von Reichbauer*

**A motion was made by Boardmember Gossett that this FD Resolution be Passed as Amended. The motion carried by the following vote:**

**Yes:** 8 - Mr. McDermott, Mr. Ferguson, Mr. Gossett, Ms. Lambert, Mr. Phillips, Ms. Patterson, Ms. Hague and Mr. Dunn

**Excused:** 1 - Mr. von Reichbauer

**6. Motion to approve fourth quarter 2011 warrants**

*Boardmember Gossett moved to approve fourth quarter 2011 warrants. The motion carried.*

**7. Other Business****8. Adjournment**

*The meeting was adjourned at 1:56 p.m.*

Approved this \_\_\_\_\_ day of \_\_\_\_\_.

---

Clerk's Signature



# KING COUNTY

1200 King County Courthouse  
516 Third Avenue  
Seattle, WA 98104

## Signature Report

May 17, 2012

### FD Resolution

**Proposed No.** FD2012-06.1

**Sponsors**

A RESOLUTION relating to the King County Ferry  
District's 2009 financial statements and adopting the King  
County Ferry District Financial Statements for the Year  
Ended December 31, 2011.

WHEREAS, the King County Ferry District ("District") Board of Supervisors  
desires to adopt the District's financial statements for the year ended December 31, 2011;  
now, therefore

BE IT RESOLVED BY THE BOARD OF SUPERVISORS OF THE KING  
COUNTY FERRY DISTRICT:

SECTION 1. The King County Ferry District Board of Supervisors adopts the  
King County Ferry District Financial Statements for the Year Ended December 31, 2011,  
attached to this resolution as Attachment A.

KING COUNTY FERRY DISTRICT  
KING COUNTY, WASHINGTON

\_\_\_\_\_  
Joe McDermott, Chair

ATTEST:

\_\_\_\_\_  
Anne Noris, Clerk of the Board

**Attachments:** A. King County Ferry District Financial Statements for the Year Ended December 31,  
2011

**King County Ferry District**

---

**Financial Statements for the  
Year Ended December 31, 2011**



FRANCIS & COMPANY PLLC

## ACCOUNTANT'S REPORT

King County Ferry District  
Seattle, Washington

We have compiled the accompanying financial statements of the business-type activities and major fund information of King County Ferry District, a component unit of King County, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

The management of the District is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist the management of the District, in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are not material modifications that should be made to the financial statements.

The management's discussion and analysis, on pages 1 through 4, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or provide any assurance on the supplementary information.

Seattle, Washington  
April 30, 2012

206.282.3720 T  
206.282.3949 F

701 Dexter Ave. N., Suite 404  
Seattle, Washington 98109

[francis-company.com](http://francis-company.com)

**KING COUNTY FERRY DISTRICT**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>TABLE OF CONTENTS</b>	<b>Page</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
Balance Sheet	5
Statement of Revenues, Expenses and Changes in Net Assets	6
Statement of Cash Flows	7
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>8</b>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the King County Ferry District (the District) for the fiscal year ended December 31, 2011. As this information is presented in summary form, it should be read in conjunction with the financial statements and footnotes as a whole.

The District was established in April 2007 to provide passenger-only ferry services to King County residents. The District's personnel currently consist solely of its governing body, the Board of Supervisors. It is comprised of all nine members of the King County Council. To provide ferry services, the District contracts with King County, utilizing King County's technical expertise and personnel, to manage the existing routes and develop future routes in the Puget Sound area.

### **Financial Highlights**

- As of December 31, 2011, the District's assets exceeded its liabilities by \$26.81 million.
- Total net assets decreased by \$2.32 million as compared to fiscal year ended December 31, 2010.
- Passenger fare revenue increased to \$1.10 million in 2011 from \$0.80 million in 2010.

### **Overview of the Financial Statements**

The District's financial statements are prepared in conformity with United States' generally accepted accounting principles (GAAP) as applied to government units. The District is a stand-alone enterprise fund, and the financial statements are presented using the economic resource measurement focus and accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recognized in the period in which they are incurred.

The Balance Sheet presents information about all of the District's assets and liabilities. The difference between assets and liabilities is reported as net assets. When net assets are compared for several years, increases and decreases may serve as a useful indicator of whether the District's financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets presents information on how the District's net assets changed during the year. All changes in net assets are reported as soon as the event occurs, regardless of the timing of related cash flows.

The Statement of Cash Flows presents information on the District's cash receipts, cash payments, and changes in cash during the year.

The basic financial statements can be found following this Management's Discussion and Analysis.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. Notes to the financial statements can be found following the basic financial statements.



## Financial Analysis

<b>Balance Sheets</b>	2011	2010
Current assets	\$ 25,704,558	\$ 27,144,529
Capital assets	3,343,479	2,422,695
Total Assets	<u>29,048,037</u>	<u>29,567,224</u>
Current liabilities	<u>2,239,285</u>	<u>441,064</u>
Total Liabilities	<u>2,239,285</u>	<u>441,064</u>
Invested in capital assets	3,343,479	2,422,695
Unrestricted	23,465,273	26,703,465
Total Net Assets	<u>\$ 26,808,752</u>	<u>\$ 29,126,160</u>

The Balance Sheet represents assets, liabilities and net assets. The current assets were \$25.70 million at December 31, 2011, including cash of \$23.0 million and receivables of \$2.60 million. Capital assets increased by \$0.92 million due to an increase in costs of capital projects. The total liabilities of \$2.24 million were current payables to vendors, of which \$2.20 was payable to King County Marine Division. The amount of net assets is the difference between assets and liabilities and over time may serve as a useful indicator of the District's financial position. The total net assets were \$26.81 million, including invested in capital assets of \$3.34 million and unrestricted net assets of \$23.47 for the District's operations. Total net assets decreased by \$2.32 million compared to prior year.

<b>Statement of Revenues, Expenses and Changes in Net Assets</b>	2011	2010
Operating Revenues		
Passenger fares	\$ 1,100,484	\$ 795,673
Non-operating Revenues, net		
Taxes	1,163,111	1,127,456
Other nonoperating revenues	1,366,037	1,194,917
Total Revenues	<u>3,629,632</u>	<u>3,118,046</u>
Operating Expenses		
Labor and fringe benefits	-	86,445
Professional services	323,969	516,616
Materials and supplies	497,530	486,533
Casualty and liability costs	314,810	254,988
Purchased transportation services	2,853,031	2,315,202
Miscellaneous expenses	56,118	165,982
Lease and rentals	1,719,479	1,797,397
Depreciation and amortization	182,103	14,295
Nonoperating expenses	-	10,139
Total Expenses	<u>5,947,040</u>	<u>5,647,597</u>
Total Changes in Net Assets	<u>(2,317,408)</u>	<u>(2,529,551)</u>
Net Assets, Beginning of Year	29,126,160	31,655,711
Net Assets, End of Year	<u>\$ 26,808,752</u>	<u>\$ 29,126,160</u>

Passenger fares were the only operating revenues in 2011. Fare revenues increased by \$0.30 million from prior year to \$1.10 million. Total expenses also increased by \$0.30 million from prior year. The increase in expenses resulted primarily from purchased transportation services. Purchased transportation services were costs charged by King County, via its Marine Division (KCMD) for managing daily ferry services. The changes in the District's net assets result from the difference between total revenues and total expenses. The District's total net assets decreased by \$2.32 million and overall, the District had a consistent financial operation from 2010 to 2011.

### Capital Assets

The District's capital assets, net of accumulated depreciation as of December 31, 2011, amounted to \$3.34 million, increased by \$0.92 million from the previous year. These capital assets include vehicles and equipment, leasehold improvements and construction in progress. For further information regarding capital assets, see Note 5 to the financial statements.

	Balance 12/31/2011	Balance 12/31/2010
Vehicles, machinery and equipment	\$ 123,995	\$ 123,995
Leasehold improvements	1,467,221	1,467,221
Construction in progress	1,954,697	851,810
Less: Accumulated depreciation	(202,434)	(20,331)
Total capital assets, net	<u>\$ 3,343,479</u>	<u>\$ 2,422,695</u>

### Economic Factors and Future Outlook

The District's Board of Supervisors desires to maintain the 2012 property tax levy at the 2011 level. The Board believes that the proposed property tax levy would be sufficient to carry out the District's 2012 work plan. The District will continue to offer the current services on the existing two routes, Vashon Island and West Seattle to Downtown Seattle via leased vessels. The District plans to use grant funds for design and construction of two vessels which it will own. Another capital project will involve completion of construction and installation of a maintenance moorage barge to provide for efficient maintenance of vessels and promote service reliability.

The 2012 budget is summarized below:

Passenger Fare Revenues	\$ 1,102,543
Property Taxes	1,183,252
Grants	14,873,779
Other Revenues	232,000
Total Budgeted Revenues	<u>\$ 17,391,574</u>
Operating Expenses	\$ 6,327,810
Capital Project Expenses	18,634,650
Total Budgeted Expenses	<u>\$ 24,962,460</u>

The budget is prepared using the modified accrual basis of accounting.

**Request for Information**

This financial report is designed to provide a general overview of the King County Ferry District's finances for all those with an interest in the District's finances. Questions concerning any information provided in this report should be addressed to: King County Ferry District, 516 3<sup>rd</sup> Ave, Room 1200, Seattle, Washington 98104.

**KING COUNTY FERRY DISTRICT  
BALANCE SHEET  
DECEMBER 31, 2011**

<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$	22,998,169
Taxes receivable		87,916
Interest receivable		17,014
Due from other governments		2,492,065
Prepays		109,394
Total current assets		25,704,558
<b>NON-CURRENT ASSETS</b>		
Capital assets not being depreciated		
Construction in progress		1,954,697
Capital Assets being depreciated		
Vehicles, machinery and equipment		123,995
Leasehold improvements		1,467,221
Less: accumulated depreciation		(202,434)
Total net capital assets		3,343,479
Total non-current assets		3,343,479
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>29,048,037</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$	2,239,285
Total current liabilities		2,239,285
Total liabilities		2,239,285
<b>NET ASSETS</b>		
Invested in capital assets		3,343,479
Unrestricted net assets		23,465,273
Total net assets		26,808,752
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$</b>	<b>29,048,037</b>

See Accountant's Compilation Report and Notes to Financial Statements

**KING COUNTY FERRY DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>OPERATING REVENUES</b>		
Passenger fares	\$	1,100,484
Total operating revenues		1,100,484
<b>OPERATING EXPENSES</b>		
Professional services		323,969
Materials and supplies		497,530
Casualty and liability costs		314,810
Purchased transportation services		2,853,031
Miscellaneous expenses		56,118
Leases and rentals		1,719,479
Depreciation and amortization		182,103
Total operating expenses		5,947,040
Operating (loss)		(4,846,556)
<b>NON-OPERATING REVENUES</b>		
Nontransportation revenues		148,998
Taxes levied		1,163,111
State grants and contributions		1,217,039
Total non-operating revenues		2,529,148
<b>CHANGE IN NET ASSETS</b>		<b>(2,317,408)</b>
<b>NET ASSETS, BEGINNING OF THE YEAR</b>		<b>29,126,160</b>
<b>NET ASSETS, END OF THE YEAR</b>	<b>\$</b>	<b>26,808,752</b>

See Accountant's Compilation Report and Notes to Financial Statements

**KING COUNTY FERRY DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from passenger fares	\$ 1,243,338
Payments to suppliers and for claims	(5,323,372)
Net cash (used) by operating activities	(4,080,034)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Taxes received	1,258,965
State grants proceeds	1,240,243
Net cash provided by non-capital financing activities	2,499,208
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital expenditures	(1,102,887)
Net cash (used) by capital and related financing activities	(1,102,887)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment income	131,984
Net cash provided by investing activities	131,984
<b>NET (DECREASE) IN CASH</b>	<b>(2,551,729)</b>
<b>CASH, BEGINNING OF THE YEAR</b>	<b>25,549,898</b>
<b>CASH, END OF THE YEAR</b>	<b>\$ 22,998,169</b>
<b>Reconciliation of Operating Loss to Net Cash Flows Provided (Used) By Operating Activities</b>	
Operating (Loss)	\$ (4,846,556)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization	182,103
Changes in assets and liabilities	
Decrease in other receivables	671,137
(Increase) in cash advance	(1,958,282)
Decrease in accounts receivable	142,854
(Increase) in prepaids	(69,511)
Increase in accounts payable	2,172,006
(Decrease) in other accruals and liabilities	(373,785)
Net cash (used) by operating activities	\$ (4,080,034)

See Accountant's Compilation Report and Notes to Financial Statements

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As authorized under the Revised Code of Washington (RCW) 36.54.110, King County Ferry District (the District) was established in April 2007 to expand transportation options for King County residents by providing passenger-only ferry and connecting shuttle services. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. The District has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved Statement 34, *Basic Financial Statement and Management Discussion and Analysis for State and Local Governments*. This and other GASB statements are reflected in the accompanying financial statements (including notes to financial statements).

**Reporting Entity**

The District is a special purpose government. As a municipal corporation and independent taxing authority, the District is eligible to receive federal, state, and local funds for carrying out its mission and providing transportation services. The Board of Supervisors is the primary governing body of the District. It is comprised of all nine members of the King County Council.

All activities for which the District is financially accountable have been incorporated to form the reporting entity. The District has no component units that are required to be included in its financial statements. King County reports the District as a component unit in its financial statements. However, the District, as a separate legal entity, has legal and administrative authority over all its resources.

**Basis of Accounting and Reporting**

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the *Budgeting, Accounting and Reporting System for Transit Districts* in the State of Washington.

The District is a single enterprise fund which is accounted for on an economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with its activity are included on the balance sheet. The reported total net assets are segregated into invested in capital assets, net of related debt, restricted and unrestricted net assets. Operating statements present increases (revenues and gains) and decreases (expenses and losses) in net total assets. The District discloses changes in

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

cash flows by a separate statement that presents its operating, noncapital financing, capital and related financing, and investing activities.

The District uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Property taxes are recognized as revenues in the year for which they are levied. Capital asset purchases are capitalized.

The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses result from providing services in connection with the District's principal ongoing operations. The principal operating revenues are passenger fare revenues. The operating expenses include labor, fringe benefits, professional services, materials and supplies, purchased transportation services, leases, and other expenses related to delivery of ferry services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the District's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

**Cash**

The King County Treasurer acts as custodian for the District's cash accounts, and all cash balances are invested in the King County Investment Pool (the Pool). The Pool functions as a demand deposit account where the District receives an allocation of its proportionate share of pooled earnings. Interest earnings distributed to the District are used for the District's operations.

The amounts reported as cash also include balances maintained with a commercial bank which is covered by federal depository insurance (FDIC) to the extent allowed by FDIC regulations.

**Receivables**

Receivables include charges for services rendered by the District, taxes receivable, grants receivable and other receivables.

All unbilled service receivables are recorded at year-end. The provision for estimated uncollectible receivables is reviewed and updated at year-end. This provision is estimated based on an analysis of aging of the year-end accounts receivable balance.

Property taxes levied for the current year are recorded as taxes receivable and revenues. At year-end, all uncollected property taxes are reported on the balance sheet as taxes receivable.



**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**Capital Assets and Depreciation**

Assets with a useful life in excess of one year are capitalized if the individual cost is at least \$5,000. Capital assets are recorded at historical cost. Donated capital assets are stated at the fair market value on the date of donation. Additions and improvements with a value in excess of \$5,000 and a useful life of more than one year are capitalized. Repairs and maintenance that do not add to the value of the assets or materially extend their lives are expensed as incurred.

Depreciation and amortization is computed using the straight-line method (without salvage value) over the estimated useful life of the asset. Used assets are assigned a useful life of one-half the new life. Newly acquired assets are assigned useful lives as follows:

<u><b>Description</b></u>	<u><b>Estimated Useful Life</b></u>
Buildings	30 years
Buses	12 years
Cars, vans and trucks	5 years
Heavy equipment	7 years
Office and other equipment	3 years
Telecommunication equipment	6 years
Leasehold improvements	10 to 30 years

**Net Assets**

Net assets comprise the various net earnings from operating revenues, non-operating revenues, expenses and capital contributions. Net assets are classified in the following three components:

*Invested in capital assets* – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction or improvement of those assets. As of December 31, 2011, the District had no capital related debt and total invested in capital assets was \$3,343,479.

*Restricted* – This component of net assets consists of external constraints imposed by creditors (through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restrict the use of net assets. The District had no restricted net assets as of December 31, 2011.

*Unrestricted* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”. As of December 31, 2011, the District had total unrestricted net assets \$23,465,273.

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**Income Tax**

As a public governmental corporation, the District is exempt from federal income taxes.

**Environmental Remediation Obligations**

Environmental remediation activities are reviewed routinely to determine if an obligating event, as defined by GASB statement No. 49, *Accounting for and Financial Reporting for Pollution Remediation Obligations*, has occurred, when the liability should be accrued and whether the cost should be expensed or capitalized. The District had no environmental remediation obligations as of December 31, 2011.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**NOTE 2 - CASH**

In accordance with state investment laws, the District has entered into an inter-local agreement with the District's *ex officio* treasurer, King County Treasurer, to invest funds not required for immediate expenditure in the King County Investment Pool (the Pool).

The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC) pursuant to RCW 36.29.020. All investments are subject to written policies and procedures adopted by the EFC.

The Pool functions as a demand deposit account where the District receives an allocation of its proportionate share of pooled earnings. Unrealized gains and losses due to changes in the fair values are not distributed to the District. However, the unrealized gain or loss is recognized in the statement of revenues, expenses and changes in net assets at year-end for financial reporting purposes in accordance with accounting standards. As of December 31, 2011, the District had pooled investments of \$22,922,429 at cost and \$22,992,429 at fair value.

*Interest Rate Risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2011, the Pool's average duration was 0.72 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

calculated on a monthly basis, unrealized gains or losses are not distributed. The Pool distributes earnings monthly using an amortized cost methodology.

*Credit Risk* is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. As of December 31, 2011, the District's investments in the Pool were not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, the Pool is authorized to invest in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

In addition to the Pool, the District has two depository accounts at US Bank, which are covered by federal depository insurance (FDIC).

**NOTE 3 - RECEIVABLES**

Amounts due to the District as of December 31, 2011 were detailed as follows:

Taxes receivable	\$ 87,916
Due from King County Metro	\$ 95,113
Due from Washington State DOT	\$ 371,952
Interest receivable	\$ 17,014
Cash advance to King County Marine Division	<u>\$2,025,000</u>
Total Receivables	\$2,596,995

The District determined no allowance for uncollectible receivables was necessary at December 31, 2011.

**NOTE 4 - PROPERTY TAXATION**

Under legislative authority to counties provided by the state in 2003, local ferry districts receive funding for operations through a property tax levy. The District was authorized to levy property taxes beginning January 1, 2008.

Property taxes levied in specific amounts are subject to an approval by the District's Board of Supervisors. The King County Assessor determines the tax levied against each property in each taxing district on a tax roll and the tax roll is delivered to the King County Treasury Operation Section Manager who is responsible for billing and collecting taxes due for each account.

All taxes are due and payable on April 30 of each year, but if the amount due from a taxpayer exceeds fifty dollars, one-half may be paid then and the

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

balance no later than October 31 of that year. All taxes collected are distributed to the District and kept in the custody of the King County Treasury Division.

Property taxes are recognized as revenue in the year for which they are levied. Total property tax revenue was \$1,163,111 in 2011.

**NOTE 5 - CAPITAL ASSETS**

The following is a summary of changes in capital assets for the District:

	Balance 12/31/2010	Increases	Decreases	Balance 12/31/2011
<b>Capital assets not being depreciated:</b>				
Construction in progress	\$851,810	\$1,102,887	-	\$1,954,697
<b>Subtotal</b>	851,810	1,102,887	-	1,954,697
 <b>Capital assets, being depreciated:</b>				
Vehicles, machinery and equipment	123,995	-	-	123,995
Lease improvements	1,467,221	-	-	1,467,221
<b>Subtotal</b>	1,591,216	-	-	1,591,216
 <b>Less accumulated depreciation for:</b>				
Vehicles, machinery and equipment	(20,331)	(35,381)	-	(55,712)
Lease improvements	-	(146,722)	-	(146,722)
<b>Subtotal</b>	(20,331)	(182,103)	-	(202,434)
 <b>Total capital assets, net of accumulated depreciation</b>	 \$2,463,356	 \$920,785	 -	 \$3,343,479

**Project in progress**

In 2011, the District continued several capital projects, including Interim Moorage Facility, Seacrest Dock, Seattle Terminal (Pier 50) and Vashon Terminal projects. The total cost of these projects \$1,102,887 was recorded as construction in progress.

**Lease Improvements**

The Seacrest Dock is owned by the City of Seattle. The District entered into an agreement with the City for the long-term use of the Seacrest Dock. The agreement commenced on November 1, 2009 for five years with an option to renew up to five years. In lieu of payment for a fee for the use of the Dock, the District began constructing improvements at the Seacrest Dock, including a new dock which will be owned by the City.

The Seattle and Vashon Terminals are owned by the Washington State Department of Transportation, Ferries Division (WSF). See details in Note 6 below.

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

*Vehicles, machinery and equipment*

The District had total vehicles and equipment of \$123,995 as of December 31, 2011.

Total depreciation expense was \$182,103 in 2011.

**NOTE 6 - LEASES**

The total lease expenses incurred in 2011 was \$1,719,479 as follows:

Revenue Vehicles (Vessels)	\$1,029,122
Service Vehicles (Shuttle)	\$ 639,824
Stations and Terminals	\$ 220,482
Other Miscellaneous Leases	<u>\$ 30,051</u>
Total	\$1,719,479

*Revenue Vehicles* - The District leases two vessels, Melissa Ann and Rachel Marie, from Four Seasons Marine Services. The lease of Melissa Ann started on August 1, 2009 and will end on March 31, 2012. The lease rate is \$35,835 per month. Subsequent to yearend, the District extended the lease to March 31, 2014 with a reduced monthly rate of \$32,000. The lease of Rachel Marie started on February 1, 2010 and will end on December 31, 2012. The lease rate is \$32,000 per month. The lease also has been extended to December 31, 2013 at the same monthly rate.

*Service Vehicles* - King County Transit provides shuttle bus services for the District. The shuttle bus routes that are for the District are part of the agreement between King County Transit and Hopelink. King County Transit contracts with Hopelink for all the DART shuttle bus services for King County Transit. King County Transit bills the District on a quarterly basis for the District's portion of shuttle bus costs plus allocated Transit's overhead.

*Stations and Terminals* - The District entered into an agreement with the City of Seattle for the long-term use of the Seacrest Dock. The agreement commenced on November 1, 2009 for five years with an option to renew up to five years. In lieu of payment for a fee for the use of the Dock, the District began constructing improvements at the Seacrest Dock, including a new dock which is owned by the City.

In 2011, the District finalized its contract agreement with the Washington State Department of Transportation Ferries Division for the long-term use of the Seattle Terminal and Vashon Terminal. The term of the contract is 8 years, commencing on July 1, 2011 and expiring on June 30, 2019. The annual license fee is \$57,000, which will be adjusted by consumer price index

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

(CPI). At the completion of the contract, the payment for use of these two terminals was retroactive to September 26, 2009.

Future minimum lease payments for these leases:

2012	\$838,106
2013	\$827,996
2014	\$157,424
2015	\$ 62,886
2016	\$ 64,382
Thereafter,	\$167,537

**NOTE 7 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, natural disasters, etc. The District manages the risks with assistance from King County Risk Management Office in order to reduce the exposure from liability and accidental loss of property and human resources. Insurance procured from insurance companies by the Risk Management Office are reimbursed by the District. The District has the following coverages:

- (1) Public officials liability, general liability, employment practices and auto liability insurance for the Board of Supervisors for the District through Enduris, formerly the Washington Governmental Entity Pool;
- (2) Marine general liability with a limit of \$1,000,000 per occurrence and a deductible of \$10,000;
- (3) Hull and machinery (property) coverage up to \$2,150,000 for Melissa Ann and \$1,900,000 for Rachel Marie with a deductible of \$50,000 for each leased vessel per occurrence;
- (4) Protection and indemnity liability coverage up to \$1,000,000 for each leased vessel per occurrence;
- (5) Excess liability coverage that provides \$49,000,000 in limits above a \$1,000,000 per occurrence self-insured retention for its general liability, protection and indemnity liability and maritime employer's liability;
- (6) Pollution liability up to \$5,000,000 each incident;
- (7) Mortgagee's interest (innocent owner's interest) in the amount of the hull limit on the Melissa Ann and Rachel Marie as required by the lease.

Claims against the District in 2011 did not exceed insurance coverage.

**KING COUNTY FERRY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**NOTE 8 - COMMITMENTS**

*Inter-local Government Agreements* – Since April 2008, the District has entered into an agreement with King County for managing operations of the passenger-only ferry services, the Vashon Passenger Ferry and West Seattle Water Taxi services. The District pays the County for all actual incurred costs for providing the services under this agreement such as direct labor, employment benefits, materials and supplies, subcontractors and capital acquisitions as well as administrative overhead costs for the services provided by County employees to the District. The County billed \$7,003,337 in total to the District in 2011 and \$2,196,349 was outstanding at December 31, 2011. In February 2010, the District's Board approved \$2,025,000 advance payment to the County and after offsetting this cash advance, the net outstanding payable was \$171,349.

**NOTE 9 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

There have been no material violations of finance-related legal or contractual provisions.

**NOTE 10 - SUBSEQUENT EVENT**

In March 2012, the District hired a district administrator to administer ferry operations.